USA Economy: The ravages of time

October 1st 2011 | From The Economist print edition

An intractable problem is getting worse

AMERICA’S great labour market slump continues to cast its pall over the economy, leaving one lonely group in particular shrouded in shadows. Over 6m Americans, more than 40% of all those unemployed, have now been out of work for more than six months. Most of these, 4.5m, haven’t worked for a year or more. This crisis of long-term joblessness is unprecedented in the post-war period.

Lacklustre growth is the main problem. The pace of new hiring crashed during the recession and has scarcely recovered since. Although America’s unemployment rate is down a percentage point from its peak, this is little cause for cheer. Workers are escaping unemployment more slowly than at any time since 1948. The long-term unemployed are struggling most; in the year to June, the newly jobless were three times more likely to find new work in a given month than the long-term unemployed. Many of the latter have given up hope. For the first time in decades, jobless workers are more likely to drop out of the labour force (and cease to be counted as unemployed) than to get a job (see chart). Bit by bit, a large mass of American workers is losing touch with the labour market.

One might expect unemployment to carry less stigma after a deep recession—bad times, rather than personal shortcoming, being the more likely reason for a sacking. Yet a worker’s lifetime earnings are hurt more by a job loss in a weak economy. An experienced worker laid off when unemployment is at 9% faces a reduction in lifetime earnings nearly twice that of someone sacked when the rate is 5%: a loss of 20% on average, according to new work by Steven Davis and Till von Wachter. The unemployed increasingly face discrimination in the hiring queue, often enough that Barack Obama proposes to ban the practice. Such a rule might encourage employers not to hire at all, for fear of legal action.

Still, there are some signs that the long-term jobless can be coaxed back into the working world. New research by economists Michael Elsby, Bart Hobijn, Aysegül Sahin, and Rob Valletta shows that movement in and out of the labour force is actually more fluid than has been previously assumed. The ranks of the unemployed are often replenished by those moving from outside the labour force—that is, from not looking for work at all—into active jobseeking. The long-term unemployed pay close attention to the state of the job market and resume their job search in optimistic periods. A burst of optimism early this year, corresponding to a period when employment was growing by more than 200,000 jobs a month, coincided with a surge of workers back into the labour force to
seek work. This may have reversed in recent months. In July, just 10% of workers polled by Gallup said it was a good time to find a decent job, down from 17% in April. The horizon has only grown cloudier since then.

Policymakers are slowly beginning to respond to the crisis. Barack Obama’s proposed American Jobs Act would reauthorise for another year current emergency unemployment benefits, which help to support consumption among the jobless, reducing poverty and propping up demand. Mr Obama proposes to increase the programme’s flexibility. Benefits could be used to supplement wages at businesses that cut hours rather than lay off workers, for instance. The president also seems fond of state-level programmes like “Georgia Works”, which pay benefits to jobless workers engaged in training. Should Congress approve, such measures could light the path back to work for many jobless Americans.

The Federal Reserve is also paying heed. At a speech in late August, Chairman Ben Bernanke warned that long-term unemployment could harm the economy’s long-run growth prospects, though since then he has done little to help. Nothing would be so effective as a strong economy and a tight labour market. Despite growing interest in their troubles, that seems a distant prospect for those languishing on the edge of the working world.

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